

**Chornobyl's Lesson:  
A State's Lies Will Threaten its People and its Sovereignty  
Statement by Ambassador Carlos Pascual**

Lack of transparency created conditions that led to the world's worst nuclear disaster and turned the explosion of unit 4 at Chornobyl into a larger human tragedy. Again, twenty years later, lack of transparency about Ukraine's energy sector is the greatest threat to Ukraine's sovereignty.

The Chornobyl tragedy was symptomatic of what was fundamentally wrong with the Soviet Union:

- False promises about technology.
- Disregard for the environment.
- Lies to the people and the international community.
- Greater concern for national prestige than its own people.

Ukraine's electricity sector reforms were fundamental to closing the final unit operating at Chornobyl on December 15, 2000 without disrupting national electricity supplies.

- For years, Ukraine's leaders refused to consider closure, arguing that Chornobyl's continued operation would cause massive blackouts and threaten industry.
- In fact, Ukraine had excess national generation capacity. It lacked market prices and systems to collect revenues that would allow it to pay for fuel and maintenance and to replace obsolete plants and ensure adequate supply.
- Electricity reforms that began under the Yushchenko government in 2000 with international support now allow Ukraine to export electricity even without added capacity to Hungary and Slovakia – before new nuclear plants have come on line.

Today, Ukraine's dependence on imported gas, the murky nature of supply contracts, and the secrecy around gas agreements may pose the greatest threat to Ukraine's sovereignty.

- If Ukraine is committed to acting on the lessons of Chornobyl, it will seek international help to restructure these agreements and will be fully transparent with its people and the international community about the supply arrangements.

The cutoff of Russian gas in January 2006 demonstrated Ukraine's vulnerability to external supply. The deal Ukraine and Russia negotiated in January to restore supply does not protect Ukraine's interests and does not reflect normal market practices.

- Price arrangements do not ensure long-term price stability for Ukraine.
- Russia does not guarantee to supply minimum volumes but, rather, states that it may supply gas up to a stated ceiling. In other words, Russia may determine what it wishes to supply.
- Ukraine, on the other hand, guarantees access to Russia to its gas transit system but Russia is not required to pay if capacity is not used.
- Transit rights are given to a new company, RosUkrEnergo, that does not have physical assets that can be seized if it does not meet its obligations, and whose ownership structure is murky and potentially associated with organized crime.

Ukraine has already fallen into serious arrears under the new agreement with Russia. It is unclear why revenues from gas sales and transit cannot meet payment obligations. What is clear is that another crisis will arise in June when the current gas contract expires.

- Russia has used consumer arrears in other circumstances to obtain payments through equity. In this case, the equity Russia will likely seek is an ownership stake in Ukraine's gas system as payment.
- Market prices for gas in Ukraine are inevitable, and Ukraine should have been adjusting to this reality over the last decade. At this point, a key issue for Ukraine is to phase in this adjustment in a transparent way while mitigating the shock to Ukrainian consumers.

Ukraine's leaders have an opportunity to demonstrate to Ukrainians and the international community that they are committed to break with past practices of corruption, barter and lack of transparency in the energy sector. To succeed, they must make energy security a national priority.

- Ukraine should immediately seek international help in addressing its gas supply problems. That will require full transparency on its existing contracts.
- The international community should make clear its interest in facilitating normal commercial arrangements between Russia and its energy consumers.
- The West can help by supporting programs in Ukraine to increase energy efficiency and to create and enforce regulations that promote efficiency and transparency in the gas transit system.
- When the G-8 takes up energy security in its July meeting, transparency in market structure, ownership, and supply arrangements should be the core theme. Russia should welcome such discussions as being in its long-term interests.

Ukraine's friends have, over the years, reflected on Chernobyl and said "never again." Today, acting on that lesson means that all of Ukraine's friends and its leaders will ensure that lack of transparency in Ukraine's energy deals does not threaten the sovereignty for which Ukrainians have so diligently persevered.